

SECURITY



MISSION

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| OMB APPROVAL | |
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**ANNUAL AUDITED REPORT
FORM X-17A-5
PART III**

| |
|-----------------|
| SEC FILE NUMBER |
| 8-41411 |

FACING PAGE

**Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

REPORT FOR THE PERIOD BEGINNING 01/01/02 AND ENDING 12/31/02
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

Capital Access, Ltd.

OFFICIAL USE ONLY

FIRM ID. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

1420 - 5th Avenue, Suite 1775

(No. and Street)

Seattle,

Washington

THOMSON
FINANCIAL

98101
(Zip Code)

(City)

(State)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Gordon L. Chanen

(206) 386-5656

(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

DEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Watson & Associates, P.S.

(Name - if individual, state last, first, middle name)

600 University Street, Suite 2828 Seattle, WA 98101

(Address)

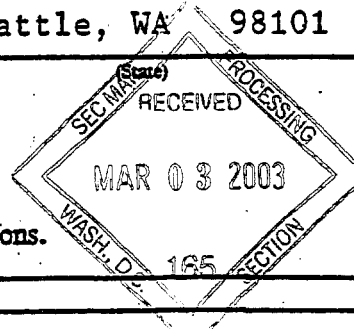
(City)

(State)

Zip Code)

CHECK ONE:

- ☒ Certified Public Accountant
☐ Public Accountant
☐ Accountant not resident in United States or any of its possessions.

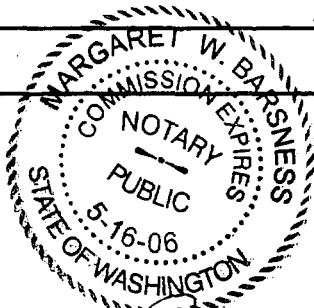


FOR OFFICIAL USE ONLY

Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

OATH OR AFFIRMATION

I, Gordon L. Chanen, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Capital Access, Ltd., as of December 31, 2002, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:



[Signature]
Signature

[Signature]
Title

Margaret W. Barrass
Notary Public

This report** contains (check all applicable boxes):

- ☒ (a) Facing page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Changes in Cash Flows.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital
- ☒ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.
- ☒ (o) Independent Auditors' Report on Internal Control Structure.

**For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

CAPITAL ACCESS, LTD.
Financial Statements for the Year Ended
December 31, 2002
and Independent Auditors' Report

CAPITAL ACCESS, LTD.

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WATSON & ASSOCIATES, P.S.

CERTIFIED PUBLIC ACCOUNTANTS
600 UNIVERSITY STREET, SUITE 2828
SEATTLE, WA 98101-3301

Independent Auditors' Report

The Board of Directors
Capital Access, Ltd.
Seattle, Washington

We have audited the accompanying statement of financial condition of Capital Access, Ltd. as of December 31, 2002, and the related statements of income, changes in stockholder's equity, and cash flows for the year then ended that you are filing pursuant to rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Capital Access, Ltd. as of December 31, 2002, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedule I is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by rule 17a-5 of the Securities and Exchange Commission. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Watson & Associates, P.S.

February 27, 2003

CAPITAL ACCESS, LTD.
Statement of Financial Condition
December 31, 2002

ASSETS

| | |
|------------------------------|------------------|
| Cash | \$ 7,496 |
| Prepaid expenses and deposit | 3,795 |
| Deferred tax asset | <u>3,080</u> |
| | <u>\$ 14,371</u> |

STOCKHOLDER'S EQUITY

| | |
|---|------------------|
| Stockholder's equity: | |
| Common stock, no par value, 10,000 shares authorized and outstanding | \$ 10,000 |
| Additional paid-in capital | 21,900 |
| Retained earnings (deficit) | <u>(17,529)</u> |
| | <u>\$ 14,371</u> |

The accompanying notes should be read with these financial statements.

CAPITAL ACCESS, LTD.
Statement of Income
For the Year Ended December 31, 2002

| | |
|---|---------------------------|
| Revenues: | |
| Concessions and services | \$ 140,530 |
| Interest | <u>25</u> |
| | <u>140,555</u> |
| Expenses: | |
| Management and support services-related party | 49,281 |
| Commission expense-related party | 93,700 |
| Professional fees | 10,000 |
| Regulatory fees and expenses | 4,421 |
| Taxes | 2,691 |
| Other expenses | <u>998</u> |
| | <u>161,091</u> |
| Income (loss) before income tax benefit | (20,536) |
| Income tax benefit | <u>3,080</u> |
| | <u><u>\$ (17,456)</u></u> |

The accompanying notes should be read with these financial statements.

CAPITAL ACCESS, LTD.
Statement of Changes in Stockholder's Equity
For the Year Ended December 31, 2002

| | <u>Common Stock</u> | <u>Additional Paid-in Capital</u> | <u>Retained Earnings (Deficit)</u> | <u>Total</u> |
|-------------------------------|-------------------------|---|--|------------------|
| Balances at January 1, 2002 | \$ 10,000 | | \$ (73) | \$ 9,927 |
| Contributions | | \$ 21,900 | | |
| Net income (loss) | <u>-</u> | <u>-</u> | <u>(17,456)</u> | <u>(17,456)</u> |
| Balances at December 31, 2002 | <u>\$ 10,000</u> | <u>\$ 21,900</u> | <u>\$ (17,529)</u> | <u>\$ 14,371</u> |

The accompanying notes should be read with these financial statements.

CAPITAL ACCESS, LTD.
Statement of Cash Flows
For the Year Ended December 31, 2002

| | |
|---|------------------------|
| Cash flows from operating activities: | |
| Net income (loss) | \$ (17,456) |
| Adjustments to reconcile net income to net cash provided (used) in operating activities: | |
| Income tax expense (benefit) | (3,080) |
| (Increase) decrease in operating assets: | |
| Accounts receivable | 2,000 |
| Prepaid expenses and deposit | <u>(1,852)</u> |
| Net cash provided (used) by operating activities | (20,388) |
| Cash flows from financing activities: | |
| Decrease in cash overdraft | (43) |
| Proceeds from additional paid-in capital | <u>21,900</u> |
| Net cash provided (used) by financing activities | <u>21,857</u> |
| Net increase (decrease) in cash | <u>1,469</u> |
| Cash, beginning of year | <u>6,027</u> |
| Cash, end of year | <u><u>\$ 7,496</u></u> |

The accompanying notes should be read with these financial statements.

CAPITAL ACCESS, LTD.
Notes to Financial Statements
December 31, 2002

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of business

Capital Access, Ltd. (the Company) is a Washington corporation that is a wholly-owned subsidiary of Capital Access, LLC (the Parent). The Company is registered with the Securities and Exchange Commission as a broker-dealer under the Securities Exchange Act of 1934. The Company is engaged in a single line of business as a securities broker-dealer providing venture capital business services. The Company is registered as a broker dealer in the state of Washington and has one office located in Seattle, Washington.

The Company does not receive or hold funds of subscribers or securities of issuers, and does not hold customer funds or securities.

Income and expense recognition

Assets, liabilities, revenues, and expenses are recognized on the accrual method of accounting.

Federal income taxes

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes. Deferred income tax assets and liabilities are recognized for differences between the financial reporting and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future. The deferred tax asset, reflected at income tax rates applicable to the period in which it is expected to be realized, results from the availability of the current year's net operating loss that expires in the year 2022.

Cash

The Company considers money market mutual funds and all highly liquid debt instruments with original maturities of three months or less to be cash equivalents for purposes of the statement of cash flows.

Concentration of sales

All of the Company's 2002 commission and service revenue was generated by the Parent or the Former Parent. See Note 4, related party transactions.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CAPITAL ACCESS, LTD.
Notes to Financial Statements
December 31, 2002

NOTE 2 - NET CAPITAL REQUIREMENTS

The Company is subject to the Securities and Exchange Commission's Uniform Net Capital Rule (SEC Rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. At December 31, 2002, the Company had net capital of \$7,496, which was \$2,496 in excess of its required net capital of \$5,000, and had an aggregate indebtedness to net capital ratio of 0.000 to 1.

The Company is exempt from the provisions of Rule 15c3-3 under the Securities Exchange Act of 1934, in that the Company's activities are limited to those set forth in the conditions for exemption appearing in paragraph (k)(2)(ii) of the Rule.

NOTE 3 - OWNERSHIP CHANGE

Through February 28, 2002, the Company was wholly owned by Chanen & Company, Ltd. (the Former Parent). The Former Parent was unable to repay substantial loans from its sole common stock shareholder, Gordon Chanen (Chanen). The Former Parent distributed all of its assets, including the Company, to Chanen and ceased operations. Chanen transferred those assets into a newly formed limited liability company, the Parent, for a 90 percent membership interest.

NOTE 4 - RELATED PARTY TRANSACTIONS

The registered representatives who generate all revenue also manage or managed the Parent and Former Parent. All management and support services are or were provided by the Parent and Former Parent. The Parent and Former Parent are paid for such services as cash becomes available.

There are written agreements between the Company and the Parent and the Company and the Former Parent which state that the Company shall incur and pay expenses directly related to broker-dealer activities, and the Parent and Former Parent shall incur and pay all other expenses.

NOTE 5 - CORPORATE REINSTATEMENT

During October 2001, the Company was administratively dissolved by the State of Washington because it did not renew its license within the time set forth by law. During March 2002, the appropriate documents were executed and filed, all fees were paid, and the Company was retroactively reinstated.

CAPITAL ACCESS, LTD.
Schedule I
Computation of Net Capital Under Rule 15c3-1 of
the Securities and Exchange Commission
December 31, 2002

COMPUTATION OF NET CAPITAL

| | |
|----------------------------|-----------------|
| Total stockholder's equity | \$ 14,371 |
| Non-allowable assets: | |
| Prepaid expenses | (3,795) |
| Deferred tax asset | <u>(3,080)</u> |
| Net capital | <u>\$ 7,496</u> |

AGGREGATE INDEBTEDNESS

| | |
|---|-------------|
| Items included in statement of financial condition: | |
| None | <u>\$ -</u> |

COMPUTATION OF BASIC NET CAPITAL REQUIREMENT

| | |
|---|-------------------|
| Minimum net capital required (6-2/3% of total aggregate indebtedness) | <u>\$ -</u> |
| Minimum dollar net capital requirement of reporting broker or dealer | <u>\$ 5,000</u> |
| Net capital requirement (greater of above two minimum requirement amounts) | <u>\$ 5,000</u> |
| Net capital in excess or required minimum | <u>\$ 2,496</u> |
| Excess net capital at 1000% | <u>\$ 7,496</u> |
| Ratio: Aggregate indebtedness to net capital | <u>0.000 to 1</u> |

Net capital as computed above under rule 15c3-1 is not materially different from the Company's calculation.

WATSON & ASSOCIATES, P.S.

CERTIFIED PUBLIC ACCOUNTANTS
600 UNIVERSITY STREET, SUITE 2828
SEATTLE, WA 98101-3301

Independent Auditors' Report on Internal Control Structure Required by Sec Rule 17a-5

The Board of Directors
Capital Access, Ltd.
Seattle, Washington

In planning and performing our audit of the financial statements of Capital Access, Ltd. (the Company), for the year ended December 31, 2002, we considered its internal control structure including procedures for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

Also, as required by rule 17a-5(g)(1) of the Securities Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company including tests of such practices and procedures that we considered relevant to the objectives stated in rule 17a-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts verifications, and comparisons
2. Recordation of differences required by rule 17a-13
3. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System

The management of the Company is responsible for establishing and maintaining an internal control structure and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of an internal control structure and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit preparation of financial statements in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in any internal control structure or the practices and procedures referred to above, errors or irregularities may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However we noted the following matter involving the control procedures that we consider to be a material weakness as defined above. This was considered in determining the nature, timing, and extent of the procedures to be performed in our audit of the financial statements of Capital Access, Ltd., for the year ended December 31, 2002, and this report does not affect our report thereon dated February 27, 2003.

One of the basic elements of a satisfactory system of internal control is an organization which provides appropriate segregation of duties. Because of the limited size of the Company, it is not possible for this to be achieved.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the Commission to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2002, to meet the Commission's objectives.

This report is intended solely for the use of the Board of Directors, management, the SEC, and other regulatory agencies which rely on Rule 17a-5(g) under the Securities Exchange Act of 1934, and should not be used for any other purpose.

Watson & Associates, P.S.

February 27, 2003